



“ Integrity begins at the top and trickles down to every employee in the form of personal responsibility. ”

## MANAGEMENT BASICS #9: INTEGRITY

### BUSINESS ETHICS: AN OXYMORON?

**Editor’s Note:** Following is the ninth part of our ten part series called “Management Basics,” by Fred Ode, CEO, chairman and founder of Foundation Software. See the first eight installments on our website, [www.constructionbusinessowner.com](http://www.constructionbusinessowner.com).

There’s an old accounting adage: Figures don’t lie, but liars sure can figure.

What was once tongue-in-cheek humor is today an ironic understatement in light of the avalanche of corporate accounting scandals that have rocked the U.S. business world in recent years. With public trust and confidence in business at an all-time low, the lesson seems to be: Businesses are morally bankrupt and corporate greed is everywhere.

But is that really the case? After all, a business can’t lose its integrity—only people can do that. This brings us to the ninth critical area, *Integrity*, in my ongoing series of “Top

Ten Management Basics.”

A much overused term, integrity is nevertheless an absolute necessity for your business to stand the test of time. Although each person within a company is ultimately responsible for the decisions that he or she makes, leadership with integrity becomes all-important for the overall health and longevity of the company. Integrity begins at the top and trickles down to every employee in the form of personal responsibility.

What does it mean to lead with integrity? It means that you must define what integrity means for your business in *behavioral* terms, instead of as a vague, hollow concept that is open to interpretation. It

means establishing the company’s “moral compass” as opposed to just

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complying to your industry's code of ethics. And finally, it means having the courage to lead by example, to be fair to everyone and make your word your bond.

### Outline Core Values

To build integrity in your organization and ensure that it really matters, management must articulate the company's core values. Definitions that are too vague, such as, "Do good work," are open to lots of interpretation, and therefore, may be somewhat meaningless. Creating hard-line rules and mandated codes of conduct is not the answer either. After all, do we really encourage honest, ethical and truthful behavior when we tell someone exactly how they must behave?

Done properly, companies can define their values and inspire employees to a higher level of moral responsibility. Though rules and restrictions may be necessary, most people are motivated more by empowerment and the desire to fulfill a worthy goal.

### Lead by Example

Integrity without action is just a meaningless word. If the company's owner or top management does not follow core-defined values, employees are not likely to either. Company leaders set the tone for ethics and compliance and must model the behavior they expect.

And just as leaders set company goals for performance, they should also identify and measure integrity. Companies that are serious about their business ethics will create measures and feedback to see how they are doing. Customer surveys, employee reviews and other mechanisms of feedback can identify employees who fail to abide, as well as those who raise the bar for others.

### Identify the Gray Matter

Everyone understands the unequivocal, "black and white" ethics issues. An accountant who purposely alters a financial statement, for example, clearly lacks integrity. The tough integrity issues are those that fall into the "gray" area. Business relationships and transactions are often complex, which can lead to ambiguous interpretations of codes of conduct.

For example, in construction, *Generally Accepted Accounting Principals* allow for "Percentage Completion" for revenue reporting and inventory valuation. Reporting rules allow for some flexibility; therefore, there may be a judgment call on how complete a job really is. At what point have you crossed the line from an integrity-based decision into the gray area?

In another example, suppose you have a problem employee that you know must be terminated, but you've



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## Management Basics

decided to wait until an appropriate replacement can be found. Have you crossed the line by delaying the inevitable or by withholding company information from this person?

Finally, when your company makes mistakes, how much and to what extent do you own up to them? It's one thing to acknowledge a harm-

less, unintentional mistake, but do you offer to make restitution when a mistake could cost the company tens of thousands of dollars? These are the types of cloudy issues that business leaders face every day.

### The Price of Bad Ethics

It's easy to see why ethical lapses are

commonplace in today's highly competitive marketplace. In the short term, a lack of integrity can be a tremendous boom for companies. The contractor who constantly holds payments or short-changes his subcontractors on change orders will definitely make more money today. But as his credibility and reputation deteriorate, it's only a matter of time before he has no business at all. To survive in the long term, a company must be built upon the rock solid foundation of truth and honesty.

Without adherence to a strict moral or ethical code, a business opens itself up to costly legal fees and government compliance penalties. The greatest cost factor, however, comes in the form of lost business opportunities. A company may never know how much business has been lost because potential customers or clients have negative perceptions of the company's credibility and integrity.

The bottom line regarding integrity is that no company can survive for any length of time, without an authentic, moral code of conduct. But remember, a company can't lack integrity—only people do that. When personal responsibility begins at the top and is carried on down to every single employee, integrity becomes a cornerstone of the company. ■

*Fred Ode is the CEO/chairman of Foundation Software, developer of construction job cost accounting software called FOUNDATION for Windows. For further information on FOUNDATION for Windows, visit [www.foundationsoft.com](http://www.foundationsoft.com). Fred Ode can be reached directly by phone at 800.246.0800 or e-mail [fred@foundationsoft.com](mailto:fred@foundationsoft.com).*



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